

ACME-CLEVELAND CORPORATION
1975 ANNUAL REPORT

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Supplementary Corporation File

100 Years Of Productivity

FINANCIAL HIGHLIGHTS

	YEAR ENDED SEPTEMBER 30	
	1975	1974
Net Sales	\$231,490,000	\$169,442,000
Net Earnings	6,955,000	5,709,000
Earnings Per Common Share	1.56	1.43
Dividends Per Common Share	.625	1.00
Plant and Equipment: Expenditures	8,236,000	5,969,000
Depreciation	4,758,000	3,706,000
Number of Shareholders	7,530	7,742
Number of Employees	6,488	7,200

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SEC 10-K REPORT

Copies of Acme-Cleveland's 10-K report, filed with the Securities and Exchange Commission, are available at no charge upon written request to the Secretary, Acme-Cleveland Corporation, P.O. Box 5617, Cleveland, Ohio 44101.

"The foundation for a splendid business is laid - and well laid."

As he neared retirement in 1903, Jacob Dolson Cox, Sr., co-founder of The Cleveland Twist Drill Company on June 27, 1876, wrote these words about the company in a note to his sons. The passage started above continued: "It remains for you boys to build on it a fitting superstructure. That will require judgment, good sense, diligence and close application. I hope you will prove equal to the task and leave to your children a monument that they can feel proud of — ambitious to carry on to still grander results."

Jacob Cox's greater achievement has continued as a challenge. The people of Acme-Cleveland in each succeeding generation have enhanced the legacy they were privileged to receive — through advancements in the tools of production, that have helped to raise the quality of life wherever they have been used.

The present generation dedicates its best efforts to these same goals as the company enters its second century of usefulness to industry.



100 YEARS OF GROWTH, BY DECADE

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1876 Cleveland Twist Drill is founded June 27, 1876, as Newton & Cox, a partnership, by Jacob Dolson Cox, Sr., and C. C. Newton. Cox redesigns earlier Newton milling machines to improve manufacture of drills. Sales for first year are \$735.33. In 1880 Cox buys out Newton's half of the business, and sells Francis F. Prentiss two-fifths interest in the business.

1886 Cox and Prentiss try twice to sell business but, fortunately, no takers. Lakeside Avenue/East 49th Street property in Cleveland acquired. Patents for drill milling machines obtained. Acme Screw Machine Company is founded in 1895 by Edwin C. Henn and Reinhold Hakewessell, who build prototype of multiple spindle bar machine.

1896 Cleveland Twist Drill initiates reading room, evening classes, other benefits for employees. CTD is incorporated January 1, 1905. Acme Screw Machine moves from Hartford, Connecticut, to Cleveland, merges with National Manufacturing Company to form National Acme Manufacturing Company.

1906 Cleveland Twist Drill markets "Peerless Reamer," receives patents for it. In 1915, National Acme acquires Windsor Machine Company, Windsor, Vermont, maker of four-spindle automatic screw machine known as "Gridley." Name becomes National Acme Company with machines known as "Acme-Gridleys."

1916 New National Acme plant is built on East 131st Street at Coit Road. Both Cleveland Twist Drill and National Acme are among Cleveland's largest companies and employers. Both play key roles in World War I production effort. Cleveland Twist Drill introduces "Ezy-Out" screw extractors, and tries drilling for gas on its own property, unsuccessfully.

1926 National Acme introduces six- and eight-spindle automatic machines. In 1928 LaSalle Machine Tool is founded in Detroit, Michigan by ten tool-makers including Irwin Sattler. Boom times are shattered with collapse of stock market on October 24, 1929. In 1932,

after years of research, Cleveland Twist Drill patents "Momax" steel, first commercially successful molybdenum-tungsten high-speed steel, destined to play important role in our national defense. All three companies survive the Great Depression.

1936 Namco Controls is organized as outgrowth of development work by National Acme on the Chronolog, an electrically-operated measuring device. World War II years see full dedication of people and facilities to military production effort. In 1941 Cleveland Twist Drill and National Acme become first companies in the United States to receive Army-Navy Stars for war production excellence.

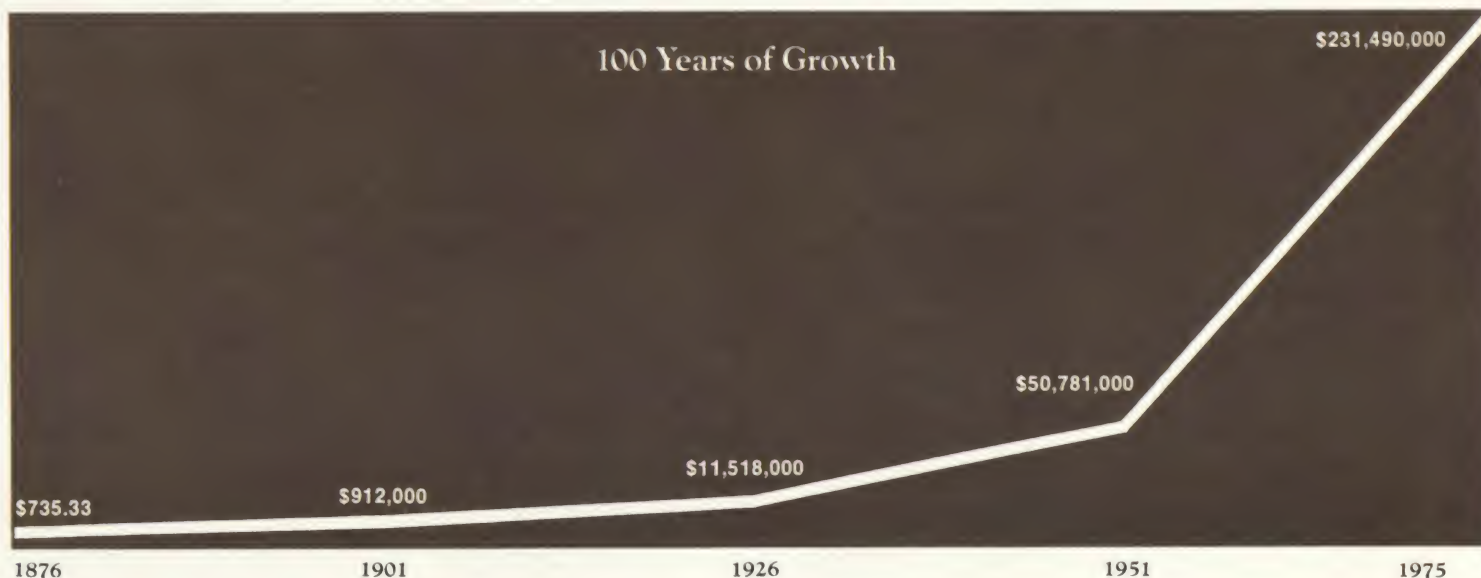
1946 Companies adjust to post-war conditions, expand, prepare for more growth. War-time technologies adapted, electronic age looms. In 1953 Shalco Systems is founded at Stanford University, Palo Alto, California, by Professor F. K. Shallenberger and group of his engineering students to produce first commercial shell and core mold machine.

1956 Shalco is acquired by National Acme in 1959. By now Cleveland Twist Drill and National Acme products are well-known in most parts of the world. LaSalle occupies new plant in Warren, Michigan, enlarges it three times in this decade.

1966 On January 1, 1968, National Acme purchases Demmler Manufacturing Company, Kewanee, Illinois, and on October 25 of the same year Cleveland Twist Drill and National Acme join to form Acme-Cleveland Corporation, with combined sales of \$109,390,676. New research division, Acme-Cleveland Development Company, is formed in 1973. In June, 1974 LaSalle Machine Tool joins Acme-Cleveland as subsidiary.

1975 Corporation completes fiscal year on September 30, 1975 with record annual sales of \$231,489,665. Preparations begin for observing, on June 27, 1976, completion of 100 years of providing the tools of production to industry.

100 Years of Growth



REPORT TO SHAREHOLDERS

ACME-CLEVELAND Corporation's sales for the fiscal year ended September 30, 1975 were \$231,489,665 — an increase of 37% over the previous year. Net earnings of \$6,955,490, or \$1.56 per share, were 9.1% greater than the \$1.43 per share earned in the preceding year. The purchase of LaSalle Machine Tool at the beginning of the fourth quarter of fiscal 1974 added LaSalle sales and earnings for three months of that year and for all of 1975. The shares issued for this purchase are included in calculating earnings per share.

As a result of the heavy demand for our products in 1973 and 1974, our backlog of orders at the beginning of fiscal 1975 totaled \$190 million. We were able to maintain a high level of shipments in spite of a sharp reduction in incoming orders by reducing this backlog to \$100 million at year end.

WORKING CAPITAL AND BORROWING

The additional working capital required for the higher volume was further increased by excessive inventories resulting from shortages, long lead times and unreliable deliveries of many of the items we purchase. As deliveries improved, we had large outstanding purchase commitments, many of which could be cancelled only by incurring heavy cancellation charges.

Efforts to reduce inventory investment were successful only in the latter months of the year. Therefore, throughout the year we were obliged to borrow heavily from the banks at historically high interest rates, paying a total of \$6.9 million in interest charges in the 1975 fiscal year as compared with \$3.5 million in 1974. As this report goes to press, our bank borrowings are down \$35 million from their peak, reflecting the repayment of \$10 million and receipt of the proceeds of the \$25 million long-term loan from four insurance companies. Consequently, our balance sheet is stronger than it was just a few months ago. New long-term financing arrangements are described in this report in the Financial Review and Note E to the financial statements.

DIVIDENDS

In February 1975, our Board of Directors decided that until the Corporation's debt position improved materially, it would be in the best long-term interest of shareholders to reduce the dividend to a rate of fifty cents per year.

CAPITAL EXPENDITURES

Property, plant, and equipment purchases during the fiscal year totaled \$8.2 million with the major portion spent for profit-improving projects. A new modern building at Kewanee, Illinois, was completed and put in operation in November 1975, expanding and improving our Shalco foundry equipment production.

Ground has been broken at Fremont, Ohio, for an Acme-Cleveland Distribution Center for replacement parts. We will be able to serve our customers more promptly and efficiently from this automated corporate warehouse. The new facility is scheduled to be in operation in the summer of 1976.

LIFO INVENTORY VALUATION

By the end of the fiscal year, inventory investment was reduced by almost \$2 million. The Company was able again to



W. Paul Cooper, left, and Arthur S. Armstrong reflect upon the ingenuity of Jacob Dolson Cox, Sr. who designed and built this machine in 1877. Still operable, but now part of an historical display at Acme-Cleveland Development Company, the machine can mill flutes in drills of $\frac{1}{2}$ " to 5" in diameter.

avoid illusory "inventory profit" because it has for many years valued most inventories using the LIFO method, which charges current income with current costs and avoids unrealized profits resulting from writing up inventories to reflect increased costs. The effect of this method is explained in Note A to the financial statements in this report.

OPERATIONS REVIEW

National Acme shipments increased 22% over the previous year, and net earnings improved significantly. Two-thirds of the fiscal 1975 billings for machines and accessories had inadequate profit margins because the orders were taken during the period of price controls, and no subsequent relief was possible. One could write a song, "Price Controls Are Gone But The Injury Lingers On." Capital goods producers of standard products with long lead times were victims of inflexible U.S. price controls to a greater extent than others. Increased shipments, cancellations and a much lower rate of incoming orders reduced National Acme's order backlog to a level equal to about ten months' shipments. There are indications that the recent small improvement in the rate of new orders will continue throughout next year.

LaSalle Machine Tool's shipments and net earnings from U.S. and Canadian operations were at a high level throughout the year. New order input was low, however, and the backlog at fiscal year end was less than one-half the backlog at the beginning of the year. An unprecedented number of outstanding quotations and widespread interest in LaSalle manufacturing systems could indicate considerable improvement in new business in 1976 and 1977.

Cleveland Twist Drill's U.S. company saw incoming orders for cutting tools decline by 50% from the previous fiscal year, and earnings decline 50% from the previous year. The backlog of unfilled orders has been practically eliminated, and finished product inventories have been rebuilt to main-

tain a better "off-the-shelf" service level. Much of the sharp reduction in the rate of incoming orders in 1975 was a result of the massive inventory liquidation by industry in the United States, and liquidation continues but at a much slower rate. Cleveland Twist Drill's rate of incoming orders has begun to improve moderately, and this trend is expected to continue through 1976.

Shalco Systems' foundry equipment business continued to grow, but earnings were reduced by heavy expenses required for the development and introduction of new products. New order input for the 1975 fiscal year was about one-third below the previous year; however, the current high level of customer interest in Shalco's equipment, particularly new products, indicates further growth in fiscal 1976.

Namco Controls' incoming orders were affected by inventory liquidation and fewer commitments for capital equipment which use Namco products. Large expenditures required to bring new products to the market and costs of developing new manufacturing methods resulted in a loss for this segment of our business.

Foreign Subsidiaries. The recession in Europe has been more severe than in the United States. The high rate of inflation throughout most of Europe coupled with a depressed volume of business adversely affected our operations there, and all of our European companies operated at losses. The Mexican cutting tool company was profitable in spite of a three-month strike. Cleveland Twist Drill in Canada continued to be profitable.

GENERAL ECONOMIC COMMENT AND OUTLOOK

As we come out of the most severe recession of the postwar period, the moderate recovery evident in recent months in the United States is expected to continue through 1976. Recovery in Europe is less evident and the future more uncertain. The problems of inflation, high interest rates and shortages of capital persist in the U.S. and in much of the rest of the world. Because of the ravages of inflation during the past several years and the prospects of more of it to come, there is a growing realization that earnings reported by most businesses are seriously overstated. As a nation's currency deteriorates in value, there is little business managers can do to protect the integrity of the assets for which they are responsible. The LIFO method of inventory valuation can be adopted for reporting earnings. Many companies have made this change in the last year or two. They can amortize facilities at the fastest rate of depreciation allowed by law. But these measures come nowhere near counteracting the wasting and destructive force of inflation. The replacement of any of a company's assets at today's inflated prices requires additional capital beyond that provided by charges against earnings in prior years. For example, the cost of an industrial building has more than doubled in the last nine years. Earnings retained in the business to finance growth are required instead for continuing replacement of existing assets. As the Queen said to Alice in *Through the Looking Glass*, "It takes all the running you can do to keep in the same place." As both a consumer of capital goods and a producer of them, we

add our plea to those of others for improved investment incentives and better capital recovery legislation.

CORPORATE OBJECTIVES

Operating in the present economic environment we must pursue the following major objectives:

1. Improve the return on net assets employed in each of our operations. Make an orderly disinvestment of any plant or product which does not hold the prospect for satisfactory earnings.
2. Improve the financial strength of the Company through increased earnings, prudent management of working capital, and reduction of debt.
3. Develop and efficiently employ all our human resources.
4. Establish and maintain efficient, highly productive facilities for all operations.
5. Market world-wide at an appropriate profit those products and services which best fulfill the needs of our customers.
6. Exploit all advantages inherent in the complementary nature of the Company's various products and technological abilities.



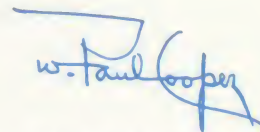
During the year, two Directors retired from our Board: John C. Stites, after 38 years as an employee, and 20 years as a Director; and Robert C. Ochs, after 14 years as a Director. Each made a significant contribution to the success and development of the Company.

We have been through a trying period of considerable growth and the growing pains incident to it. New, younger managers have been given additional responsibility, and we are proud of the way they are accepting their new challenges.

Your Chairman, who will be retiring as an Acme-Cleveland employee on March 1st after nearly 43 1/2 years with the Company, takes advantage of his seniority by inserting this paragraph in what otherwise is a joint Report to Shareholders. I should like to record my confidence in Mr. Cooper as our Chief Executive Officer and in the abilities and talents of the managers who work with him. We enter our second century of service to industry in a strong position to continue our growth and to prosper. I am confident that our Corporation is in good hands.



Arthur S. Armstrong
Chairman of the Board



W. Paul Cooper
President

December 15, 1975



CLEVELAND TWIST DRILL

CLEVELAND TWIST DRILL is the oldest part of Acme-Cleveland Corporation. Its hundred-year history includes years of peace and war, of prosperity and adversity. During this long period its reputation as a manufacturer of quality high production cutting and threading tools has steadily spread throughout the industrialized world.

Wherever production involves any material that is machinable, drills, taps, reamers, end mills, and other cutting and threading tools are generally required. To perform these operations, manufacturers can select Cleveland Twist Drill cutting and threading tools from an assortment of over 30,000 sizes and types. Whether it's for drilling a microsize hole in a solid-state electronic component or taking giant cuts in an axle for earthmoving equipment, the comprehensive Cleveland Twist Drill line offers the tools. Challenges in machining jobs, particularly when super-hard alloys, such as titanium and others, have been met successfully, and frequently anticipated by development of tools possessing the metallurgical and design characteristics to give superior performance.

Cutting and threading tools made by Cleveland Twist Drill are technically far superior to those made 100 years ago and, in fact, to those produced just a few years ago. But they *are* expendable. They eventually wear out and must be replaced. Demand for these kinds of tools, accordingly, follows the level of general industrial activity. Because of recent severe fluctuations in the economy, adjustments in raw material and finished inventories represent a major opportunity, both physically and financially, for asset management. During the past year, improvements in already advanced procedures for controlling both types of inventories in all Cleveland Twist Drill operations had a high priority; the benefits of these controls should be evident early in the coming year.

Cleveland Twist Drill always has marketed its products through strategically located industrial distributors. Their personnel receive intensive factory training which gives them the competence to render the high level of specialized service required by Cleveland products. This staunch group of efficient distributors is a major reason for a century of growth.



Early factory method for straightening large taper shank drills.

LEFT: Drilling, milling and counterboring on automatic multiple-head machine.



NATIONAL ACME

NATIONAL ACME is an old and proud name in the machine tool business. Its origin can be traced back to 1895, when two young New England mechanics devised and built the pioneer model that was the prototype for all subsequent multiple spindle bar machines. Today, the modern Acme-Gridley multiple spindle automatic continues as National Acme's principal product, much refined for greater versatility and efficiency, of course.

The bearings industry was a particularly significant customer for National Acme in fiscal 1975, because of its traditional ability to provide superior machines to a specific market. These included the new 4½ BRG-4 Acme-Gridley, designed and developed to meet the needs of bearings producers. The importance of this market was evident in the proportion of National Acme's 1975 shipments — more than 20 percent — which went to these manufacturers in the U.S., many of whom are expanding present plants or building new plants.

A pioneer in the effort to develop quieter,

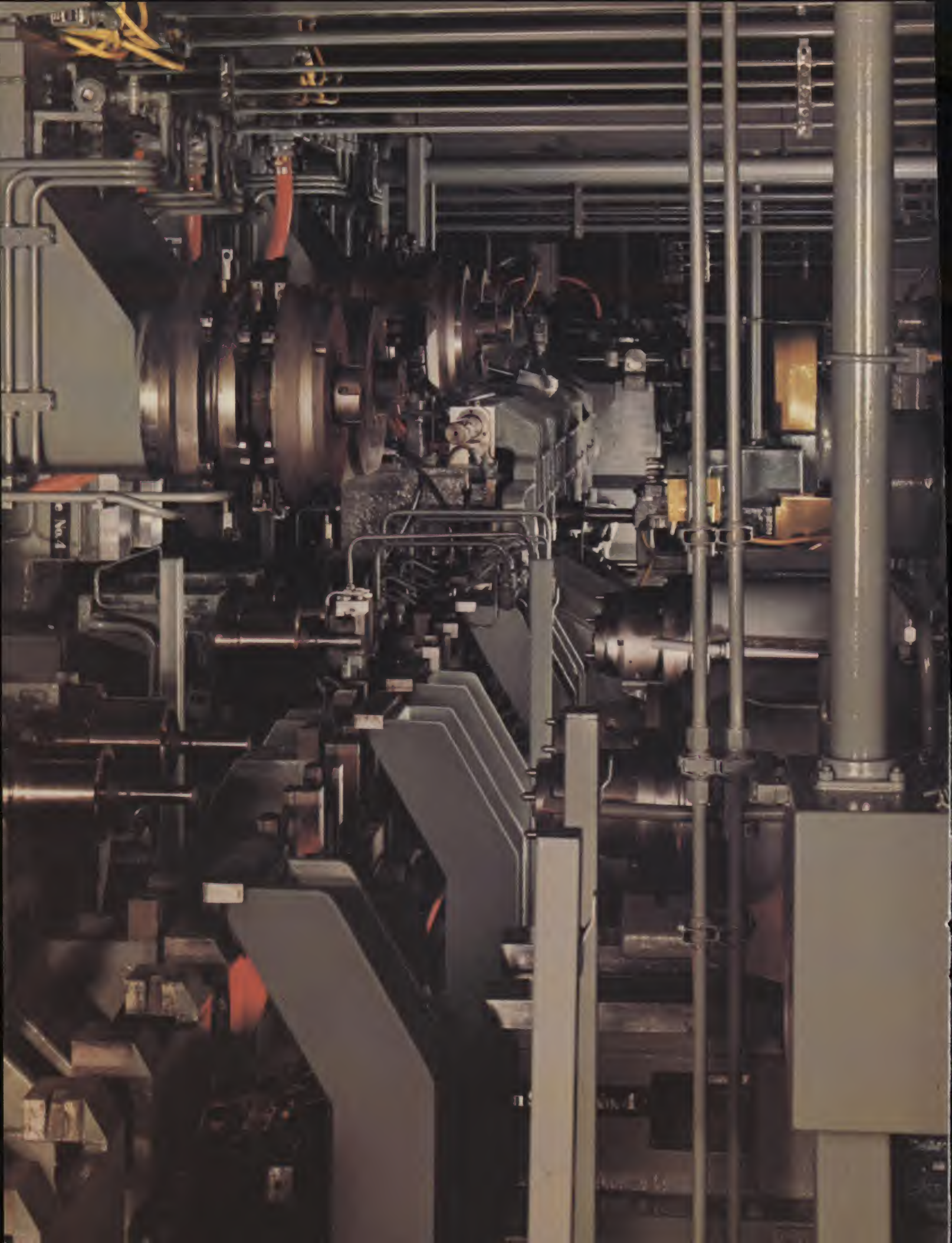
safer machines long before federal legislation appeared, National Acme's sound attenuation programs resulted in the shipment of a growing number of machines designed to operate at sound levels well within the parameters established by the Occupational Safety and Health Administration (OSHA). Even more stringent requirements on sound control are frequently specified by customers and are comfortably met by anti-noise devices on Acme-Gridley machines. In addition, Acme-Gridley users continued to utilize National Acme's retro-fit program to bring pre-OSHA installed machines into compliance.

Inventory management and production scheduling assume major roles in the manufacture of complex machines such as Acme-Gridley multiple spindle bar machines and chucks. Expanded use during the year of computer-processed inventory information enabled National Acme to carefully control completion dates for components, sub-assemblies and finished machines.



The first Acme multiple spindle automatic machine was made in this Hartford, Connecticut workshop in 1895.

LEFT: Complex of modern Acme-Gridley automatic multiple spindle bar machines equipped with sound control covers.



LaSALLE MACHINE TOOL

STARTED by a group of ten toolmakers in 1928 to produce gages and dies, LaSalle changed gradually to building fixtures, and to designing and manufacturing metal-removing machine tools. In recent years it has become known for its capability in supplying total manufacturing systems that perform all operations on a machined part from rough casting to packaging.

Specialized support comes from two of LaSalle's domestic operations: Sys-T-Mation furnishes conveyor and parts handling equipment, storage elevators, and cleaning and packaging equipment; ConCEP A.C. Controls supplies many of the controls built into LaSalle systems.

LaSalle Machine Tool joined Acme-Cleveland Corporation in mid-1974, which makes 1975 its first full year in the Corporation.

Throughout most of its history LaSalle has been known as a supplier to the transportation equipment, farm implement, and construction equipment industries. In 1975 LaSalle continued to make gains in the farm implement sector with particular emphasis on machinery and equipment to provide

farm tractor power train components. In addition, as part of LaSalle's long-range plans to penetrate other major markets, production systems were designed and proposals were presented to manufacturers of outboard motors, air conditioning compressors, and motorized chain saws. A new turning machine, equipped to turn complex shapes on engine pistons, was delivered to automotive customers. Its performance suggests excellent future prospects.

Exports from the main LaSalle facility in Warren, Michigan, continued to represent more than half of its shipments. Several piston manufacturing lines, involving a considerable amount of machinery and equipment, were shipped to the Soviet Union. Other major items of machinery and equipment were delivered to customers in Canada, Mexico, Brazil and Italy. A LaSalle subsidiary, LaSalle Machine Tool Italia, Turin, Italy, engineers and manufactures much of the same special machinery and equipment as the parent company. LaSalle is an important addition to the Acme-Cleveland family and complements our other efforts as a supplier of production systems.



LaSalle's original machine shop in the 1930's.

LEFT: The heart of a LaSalle automated system for manufacturing automotive disc brake rotors.



SHALCO SYSTEMS

YOUNGEST member among the Acme-Cleveland Corporation manufacturing divisions, Shalco Systems was started in 1953 by a group of persistent university engineers with a revolutionary idea, and has since attained a respected position as a supplier of foundry shell core and mold machines and peripheral equipment. The Shalco line includes equipment that employs both the traditional "hot box" and the newer "cold box" processes. Cores and molds are basic items required to produce all types of castings — non-ferrous, steel and gray iron — consumed in large quantities by the automotive and heavy equipment industries, typically for such parts as engine blocks and heads. The dimensional accuracy of the cores and molds strongly influences subsequent machining operations, costs and finished parts quality. The Shalco line also includes unique mixing equipment designed to achieve rapid and complete blending of sand and liquid binders. Shalco markets its line through its own international sales organization, both to independent foundries and to manufacturers with their own foundry facilities.

Its beginning rooted in "finding a better way," Shalco's forte always has been innovative technology. Growing recognition of its featured cold box process contributed significantly to 1975 sales volume, as the industry trend continued steadily toward this process which requires no source of heat. Emphasis on this technology has been increasing because it utilizes a chemical gas rather than heat, conserving energy as well as improving environmental conditions. This same process also opens opportunities to Shalco for new, related devices that enhance the safe, efficient operation of the basic core/mold units. Substantial modifications in the molding and mixing equipment are on the way, being well past the testing phase and scheduled for introduction in 1976.

Production capacity for the growth of this division was increased in November, 1975, with the opening of a new 64,000-square-foot plant in Kewanee, Illinois, which replaced a smaller, outmoded factory in the same city. Additions were made to pattern-making facilities in both Detroit and Port Huron, Michigan.



Prototype of Shalco shell and core mold machine hand-built by group of Stanford University student engineers.

LEFT: Shalco cold box forming machine requires no source of heat.

NAMCO CONTROLS



THE only Acme-Cleveland Corporation division to evolve from another manufacturing division, Namco Controls had an unnoticed beginning when, in 1936, National Acme began development of the Chronolog (photo below), an electrically-operated instrument designed to record when, how long, and why a production machine had been interrupted, at the same time accumulating and recording machine output. One type of control led to another—each one more advanced—and by the time of the National Acme-Cleveland Twist Drill combination to form Acme-Cleveland Corporation, Namco had become an important manufacturer of a diversified line of solenoids, push-button control switches, limit switches, proximity switches, and other sophisticated electronic controls. Namco's limit switches are currently specified exclusively on a worldwide basis for valve position indicators in nuclear and fossil-fuel electric power generating plants.

Coming in 1976 are more new products, including a proximity switch that senses the presence (or approach) of *any* object, regardless of material composition . . . a new control device for industry and a proud descendant of the Chronolog.



The Chronolog (on pedestal), an advanced concept considering its era (1930's).

LEFT: The "brain" of a Namco proximity switch—a miniaturized integrated circuit containing 65 transistors and other components, functionally connected to perform specific tasks, such as sensing the approach of an object, which actuates the switch.

INTERNATIONAL OPERATIONS

EVER since the late 1800's, when Cleveland Twist Drill began shipping wooden cases of cutting tools in Atlantic Ocean clipper ships to customers overseas, international business has represented a significant portion of Acme-Cleveland Corporation's total sales. From the turn of the century until the 1960's, international sales increased gradually. During the past decade, however, the growth has accelerated. The more rapid increase was attributable not only to increased export shipments of U.S. made products but also to the acquisition of foreign companies and to the establishment of new plants in various parts of the world. All operating divisions of the Corporation have either their own facilities or manufacturing licensees in two or more foreign countries.

In 1975 Cleveland Twist Drill, which has operations in Canada, Mexico and Western Europe, experienced the same curtailment in new orders at foreign plants as in its domestic business, a first-time occurrence reflecting the universal scope of the economic recession. National Acme had steady but lower foreign shipments of its Acme-Gridley machines, highly regarded wherever they are in service.

By various means, including the expansion of their product lines, LaSalle Machine Tool and Shalco Systems were able to show gains. Both participated in foreign trade shows during the year, LaSalle in Romania and Shalco in Russia, and both have scheduled exhibits at similar 1976 shows.



LEFT: Partially assembled Acme-Gridley machine being hoisted into cargo plane for overseas shipment.





TOTAL PRODUCTION SYSTEMS

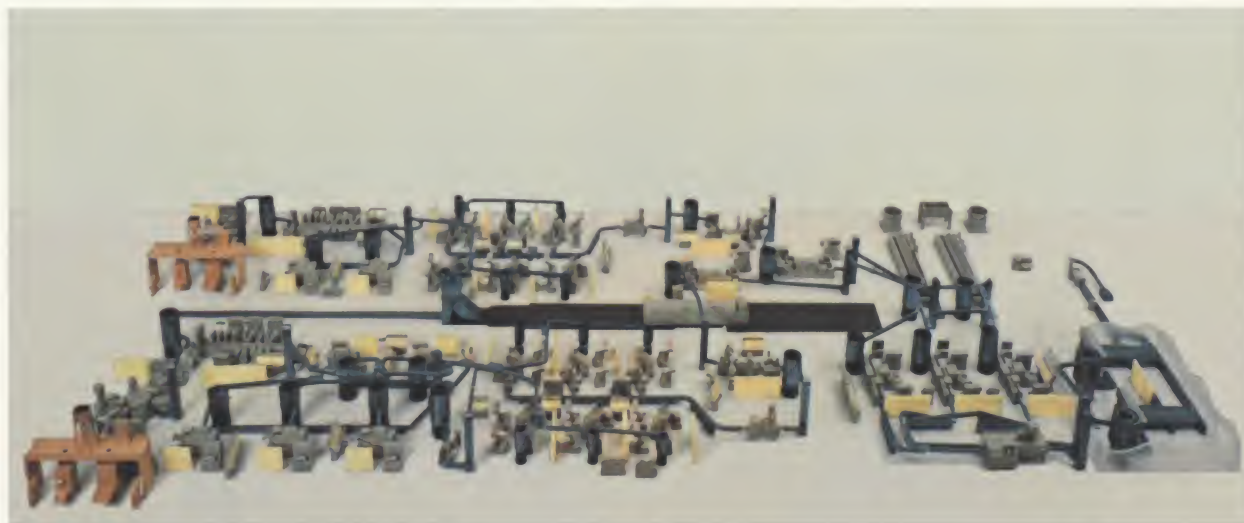
SEEMINGLY incompatible — coarse, abrasive sand and a sleek, mirror-finish engine piston. But in modern manufacturing the relationship is a basic one, evolved from the early days of the Industrial Revolution: into a sand mold hot metal is poured to form a casting of rough size and shape, which is then precision-machined.

An Acme-Cleveland Total Production System . . . the assemblage of the tools of production made or supplied by the five operating divisions of Acme-Cleveland . . . provides all of the equipment a manufacturer requires to accomplish this basic process. And from the point where the raw part goes into the machining section of the System, the operations are automatic.

The sand, blended in a Shalco Saturn mixer with other ingredients, pours directly

into the core-blower of a Shalco Systems' shell core mold machine, which makes molds for casting a raw piston. After the part is cast, it enters the machining section of the System, and automation takes over. Here the products of the other four Acme-Cleveland operations perform their functions: transfer lines, made by LaSalle Machine Tool, which provide complex machining and orderly flow of parts through the System; automatic multiple spindle bar machines and chuckers, made by National Acme; cutting, drilling, and threading tools, made by Cleveland Twist Drill; and electronic controls by Namco Controls, which police the System's operation.

Acme-Cleveland's capability for complete production systems — from raw casting to finished packaged parts — is distinctive in American industry.



Typical Acme-Cleveland fully automated production systems for manufacturing engine pistons — upper system for all-aluminum pistons, lower system for aluminum pistons with iron inserts. Process begins with molds for castings and ends with packaged parts.



LABORATORY research work as an important Acme-Cleveland activity goes back at least three quarters of a century (photo below), but as a separate research and development division it traces only to 1973 when Acme-Cleveland Development Company was established by the Corporation. At that time research activities conducted by the separate divisions were transferred to ACDC, where, in a new and thoroughly equipped facility projects could be guided by engineers and technicians from concept to reality. Many benefits have ensued: freedom of divisions to devote maximum effort to producing and selling their products at a profit; a synergy resulting from the interplay of many disciplines channeled toward practical solutions; opportunity to pursue solutions to difficult long-range technological problems; and others.

Included among projects completed during the past year were the following: a major improvement in the Saturn Mixer, an advanced foundry equipment unit, produced by Shalco Systems; advancements in miniaturizing the complex electronic circuits used in proximity switches manufactured and sold by Namco Controls; new technology for dressing grinding wheels that will enable Cleveland Twist Drill to increase its flexibility in the manufacture of cutting tools; and development of particle metallurgy, making possible the production of cutting tools with unique and desirable features.



Cleveland Twist Drill laboratory, about 1905.

LEFT: Spectrum Analyzer detects, displays, records, and analyzes vibrations and noise in Acme-Gridley machine, enabling evaluation of effects of design changes.



Financial

FINANCIAL REVIEW

LaSALLE MACHINE TOOL

THE combination of LaSalle Machine Tool, Inc., with Acme-Cleveland Corporation, effective July 1, 1974, has had a major impact on revenue and earnings differences between the years 1975 and 1974, since LaSalle results are included in the Summary of Consolidated Operations only from the fourth quarter of fiscal 1974 forward.

With LaSalle's sales and earnings included for the entire 1974 fiscal year on a pro forma basis, Acme-Cleveland's comparative results for the two years would have been as follows:

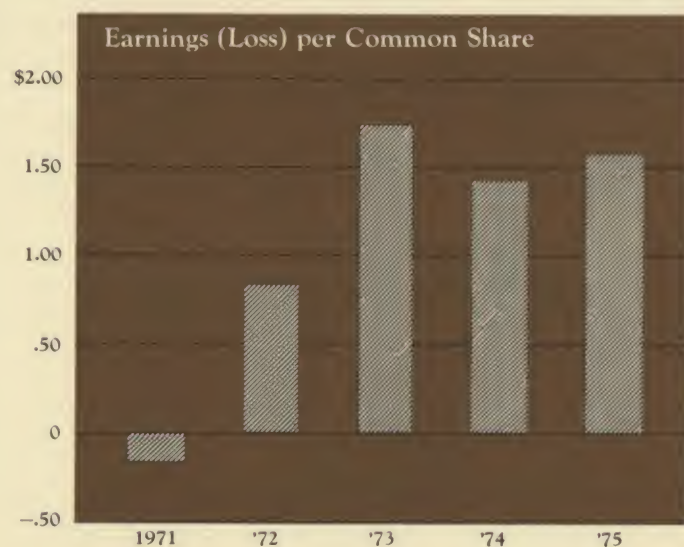
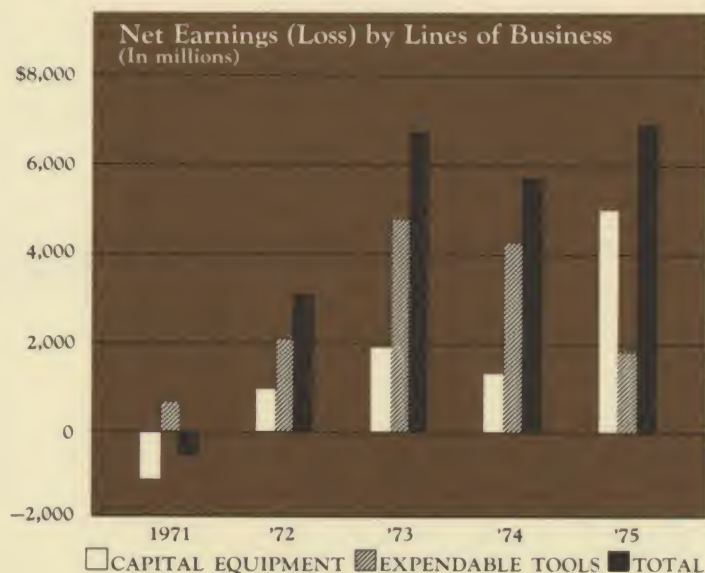
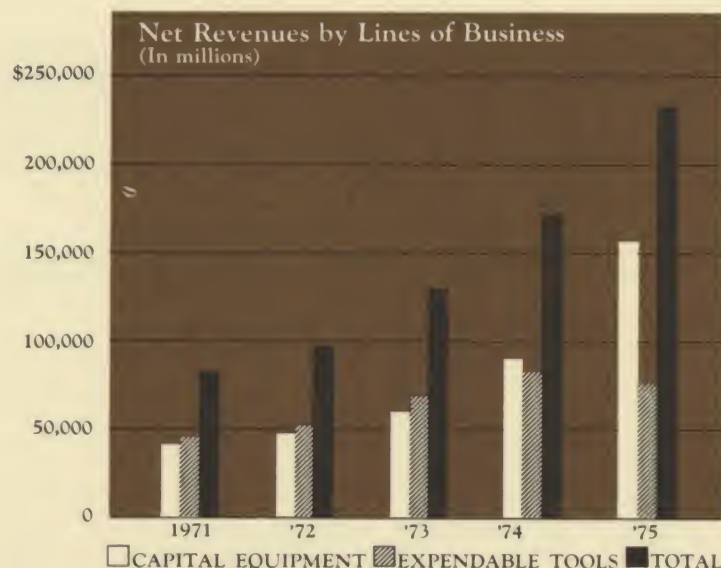
	(In Thousands)	
	1975	1974
Sales	\$231,490	\$209,058
Net Earnings	\$ 6,955	\$ 5,176
Earnings Per Share	\$ 1.56	\$ 1.16
Average Number of Common Shares Outstanding	4,410	4,410

REVENUES

ACME-CLEVELAND's revenues (sales plus other income) increased 36% to a record \$234 million in fiscal 1975, attributable entirely to growth in the capital equipment line of business, which accounted for 67% of total revenues. A major part of the increase in capital equipment revenues came from the addition of LaSalle Machine Tool operations for the full year. The expendable tools line, which feels the impact of a recession earlier than the capital equipment line, accounted for 33% of total revenues. Export revenues of Acme-Cleveland's U.S. facilities were \$35 million above the previous year. A significant part of 1975 shipments resulted from reductions in order backlogs. The consolidated backlog declined 47% from \$190 million to \$100 million. Lower and more normal expendable tools backlogs allowed a return to traditional customer service levels after the inventory shortages experienced in 1974.

EARNINGS

CONSOLIDATED net earnings after taxes rose 22% in fiscal 1975. Pre-tax earnings of the capital equipment line of business increased five fold, as they were bolstered significantly by the



addition of LaSalle. Other capital equipment operations also contributed to the improved earnings performance as profit margins widened due to more intensive use of facilities. Pre-tax earnings on the expendable tools line were 54% below 1974. The earnings decline resulted largely from lower volume. Because of price inflation in the U.S. and abroad, unit sales of expendables in 1975 were down more than the dollar sales comparisons would indicate. Also, price increases were insufficient to offset the effects of higher costs on profit margins. Total consolidated earnings per share increased 9% over 1974, in spite of an 11% increase in the average number of shares outstanding.

DISPOSITION OF PRE-TAX INCOME

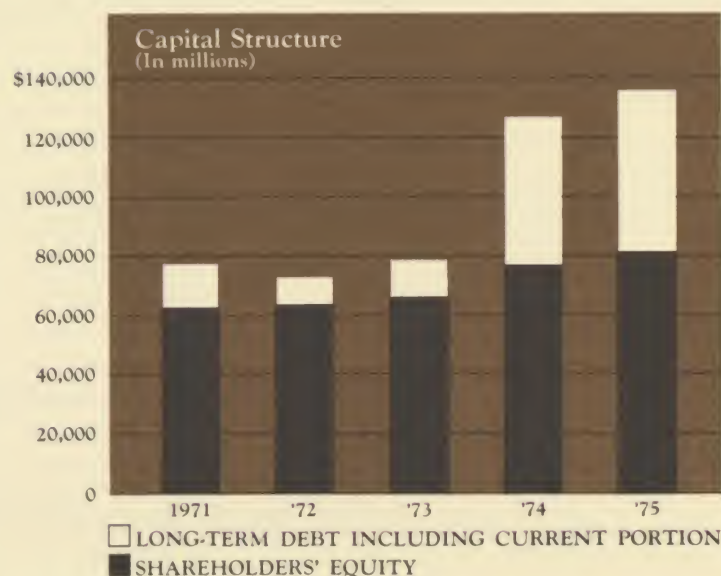
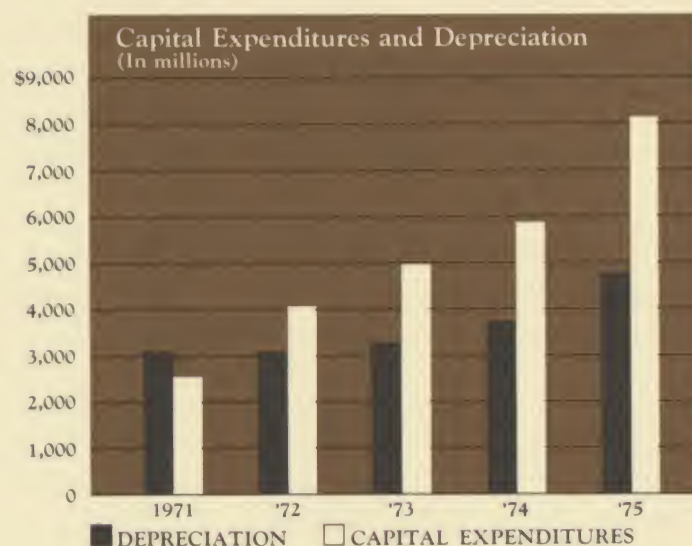
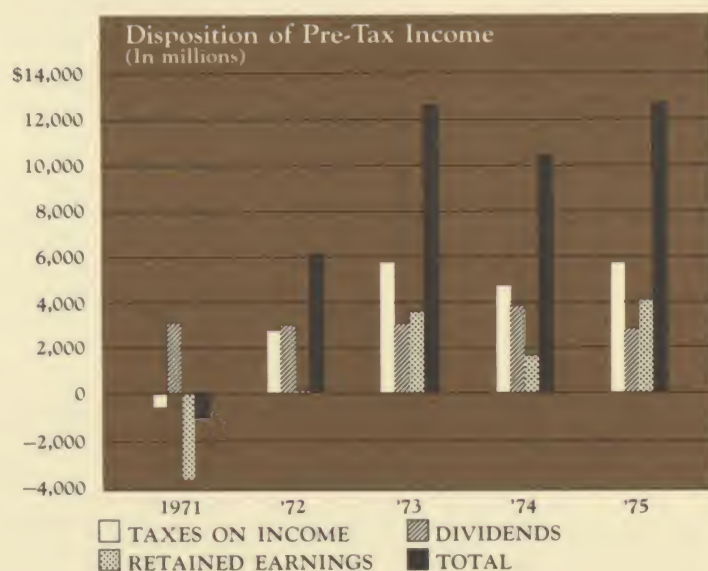
IN fiscal 1975, income taxes accounted for 45.5% of pre-tax income. Increased DISC earnings and larger investment credits were counteracted by the unavailability of foreign income tax credits to offset against losses of some European subsidiaries. Notes A and D to the financial statements provide further detail. Federal income tax returns through the 1972 fiscal year have been examined and any differences settled. It is believed that adequate provision for income taxes has been made for all open years.

Twenty-two percent of pre-tax earnings (40% of after-tax earnings) was paid out in the form of cash dividends, compared with 38% (70% of after-tax earnings) in 1974. In February, 1975 the Board of Directors reduced the dividend by half because of Acme-Cleveland's large debt position. A new dividend payment schedule was established at the same time, calling for dividends to be paid on or about the fifteenth of March, June, September and December.

Partly because of the change in the dividend rate, it was possible to reinvest \$4.1 million, or 32% of earnings before taxes (60% of after-tax earnings), in the business.

CAPITAL EXPENDITURES AND DEPRECIATION

ACME-CLEVELAND spent \$8.2 million for capital assets in fiscal 1975, as the Corporation continued to strive for more efficient, lower cost production facilities. The most important capital project was the completion of the new factory build-



ing for Shalco Systems in Kewanee, Illinois. Construction has been financed by the sale of \$2.5 million in industrial revenue bonds. Depreciation in the same period of \$4.8 million, even though an all-time high, represented only 58% of total capital expenditures. The balance came from retained earnings. Depreciation is determined generally on the straight line method using estimated useful lives of plant and equipment. The most advantageous accelerated rates of depreciation available are used for federal income tax purposes, which increases cash flow. In a period of rapidly rising prices such as 1975, the dollar amount of depreciation is even less adequate than in a more normal year for the restoration, at current prices, of the real assets consumed in production.

CAPITAL STRUCTURE

THE chart on the previous page shows the significant change that has occurred in Acme-Cleveland's capital structure. At the end of fiscal 1975, long-term debt accounted for 41% of capital, defined as the sum of shareholders' equity and long-term debt. During 1975, debt consisted principally of bank loans under a revolving credit agreement. The increase in such borrowings resulted from the absorption of \$24 million of short-term bank debt at the time of the acquisition of LaSalle and by the unusual increase in inventories and receivables in late 1974 and early 1975. Before the end of fiscal 1975, an agreement was reached to replace \$25 million of bank loans with long-term notes to be issued to four insurance companies. At the same time, completing the program announced in 1974 after the combination of LaSalle with Acme-Cleveland, a new revolving credit agreement was negotiated with the banks. Note E to the financial statements gives further detail. These two agreements will provide Acme-Cleveland with a stable financial base combined with enough flexibility to meet changing requirements for borrowed capital. In the 1974 Acme-Cleveland Annual Report reference was made to the need for additional financing for LaSalle Machine Tool Italia. In February, 1975, the Italian subsidiary was successful in obtaining a \$3 million credit from a group of seventeen Italian banks in return for the guarantee of repayment of up to one-half by the parent company, Acme-Cleveland Corporation. This credit satisfied the financing requirements of LaSalle Italia.

It continues to be Acme-Cleveland's policy to have foreign subsidiaries borrow working capital needs in their home countries. This procedure minimizes currency exchange gains and losses resulting from the transfer of funds from the United States. Lending banks in some countries require guarantees of loan repayments by the parent company under certain conditions. At September 30, 1975, Acme-Cleveland had guaranteed \$4 million of foreign subsidiary debt.

WORKING CAPITAL

WORKING capital at the end of fiscal 1975 was \$82.3 million, which represents a decrease of \$3.4 million from the end of fiscal 1974. While the effect of reductions in inventories and receivables was offset by the decrease in accounts payable, the transfer of a significant portion of long-term debt to current liabilities resulted in the drop in working capital. The ratio of current assets to current liabilities was 2.76 at the end of fiscal 1975 compared to 2.79 at the end of the previous year. The increase of \$2.2 million in accounts receivable during fiscal 1975 was largely due to the higher sales for the year. Overall, established credit policies have been closely adhered to and collection experience remains good. The Company continues to hold its top credit rating by prompt payment of accounts payable.

AUDIT COMMITTEE

ONE of the important standing committees of Acme-Cleveland's Board of Directors is the Audit Committee, which is made up of three non-management Directors. The Committee meets twice a year directly with the public accountants who audit the Corporation's financial statements to examine accounting policies and review the results of the fiscal year-end audit. By this means the non-management Directors are able to communicate directly with the outside auditors.

STATEMENT OF CONSOLIDATED EARNINGS

Acme-Cleveland Corporation and Subsidiaries

	YEAR ENDED SEPTEMBER 30	
	1975	1974
Revenues:		
Net sales	\$231,489,665	\$169,442,363
Other income	2,833,561	2,380,897
	<u>234,323,226</u>	<u>171,823,260</u>
Cost and expenses:		
Cost of products sold	170,670,207	126,022,710
Selling, administrative and general expense	38,712,360	27,825,070
Depreciation — Note A	4,757,590	3,706,216
Interest	6,919,170	3,486,962
Other	492,409	288,422
	<u>221,551,736</u>	<u>161,329,380</u>
Earnings Before Income Taxes	12,771,490	10,493,880
Income taxes — Notes A and D	5,816,000	4,785,000
Net Earnings	<u>\$ 6,955,490</u>	<u>\$ 5,708,880</u>
Net earnings per Common Share — Note J	<u>\$1.56</u>	<u>\$1.43</u>

STATEMENT OF CONSOLIDATED SHAREHOLDERS' EQUITY

Acme-Cleveland Corporation and Subsidiaries

	Preferred Shares	Common Shares			Other Capital	Retained Earnings	Total
	Shares	Amount	Shares	Amount			
Balance at October 1, 1973			3,822,232	\$3,822,232	\$ 3,274,498	\$59,758,886	\$66,855,616
Net earnings for the year						5,708,880	5,708,880
Cash dividends:							
Preferred Shares issued							
July 1, 1974 — \$.27 a share						(16,798)	(16,798)
Common Shares							
\$1.00 a share						(3,969,178)	(3,969,178)
Issuance of Preferred and							
Common Shares to acquire							
LaSalle Machine Tool, Inc.	62,215	\$808,795	587,785	587,785	7,053,420		8,450,000
Balance at September 30, 1974	62,215	808,795	4,410,017	4,410,017	10,327,918	61,481,790	77,028,520
Net earnings for the year						6,955,490	6,955,490
Cash dividends:							
Preferred Shares,							
\$1.08 a share						(67,192)	(67,192)
Common Shares, \$.25 for the							
first quarter, \$.125 per							
quarter thereafter						(2,756,268)	(2,756,268)
Balance at September 30, 1975	<u>62,215</u>	<u>\$808,795</u>	<u>4,410,017</u>	<u>\$4,410,017</u>	<u>\$10,327,918</u>	<u>\$65,613,820</u>	<u>\$81,160,550</u>

See notes to consolidated financial statements.

CONSOLIDATED BALANCE SHEET

Acme-Cleveland Corporation and Subsidiaries

	SEPTEMBER 30	
	1975	1974
ASSETS		
Current Assets		
Cash	\$ 5,270,300	\$ 4,236,674
Trade receivables:		
Accounts	24,977,816	22,807,336
Notes and installment contracts, including amounts due beyond one year (1975 — \$622,522; 1974 — \$1,528,693) — Note A	1,621,596	3,219,306
Long-term contracts and programs — Notes A and C	22,893,108	28,088,113
Total Receivables	49,492,520	54,114,755
Inventories — Notes A and C		
Work in process and finished products	55,774,684	58,039,738
Raw materials and supplies	15,753,426	15,450,666
Total Inventories	71,528,110	73,490,404
Other current assets	2,910,039	1,889,196
Total Current Assets	129,200,969	133,731,029
Property, Plant and Equipment — on the basis of cost		
Land	3,378,295	3,281,545
Buildings	27,150,408	24,557,802
Machinery and equipment	61,885,540	57,414,713
	92,414,243	85,254,060
Less allowances for depreciation	45,360,019	41,363,614
Total Property, Plant and Equipment	47,054,224	43,890,446
Other Assets		
Excess of cost over net assets of acquired companies, less accumulated amortization —		
Notes A and B	897,046	1,127,765
Miscellaneous	988,990	1,145,464
	1,886,036	2,273,229
Total Assets	\$178,141,229	\$179,894,704

	SEPTEMBER 30	
	1975	1974
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities		
Notes payable to banks	\$ 8,062,372	\$ 7,386,863
Current portion of long-term debt	10,515,354	851,962
Accounts payable and accrued expenses	15,270,084	23,581,232
Salaries, wages, other compensation and payroll taxes	10,008,175	9,138,573
Advance payments from customers	534,131	5,506,974
Income taxes (including deferred taxes: 1975 — \$1,301,000; 1974 — \$192,000)	2,494,764	1,514,417
Total Current Liabilities	46,884,880	47,980,021
 Long-Term Debt — Note E	 45,153,231	 51,075,644
 Deferred Income Taxes — Note D	 2,213,440	 2,103,490
 Pension and Severance Indemnity — Note F	 2,729,128	 1,707,029
 Shareholders' Equity		
Serial Preferred Shares, without par value:		
Authorized — 1,000,000 Shares		
Issued and outstanding Series A \$1.08, cumulative, convertible 62,215 shares (liquidation preference, \$746,580) — Note H	808,795	808,795
Common Shares, par value \$1 per share — Note H		
Authorized — 10,000,000 shares		
Issued and outstanding, excluding 22,500 shares held in treasury	4,410,017	4,410,017
Other capital	10,327,918	10,327,918
Retained earnings — Note E	65,613,820	61,481,790
	<u>81,160,550</u>	<u>77,028,520</u>
Total Liabilities and Shareholders' Equity	<u>\$178,141,229</u>	<u>\$179,894,704</u>

See notes to consolidated financial statements.

STATEMENT OF CHANGES IN CONSOLIDATED FINANCIAL POSITION

Acme-Cleveland Corporation and Subsidiaries

	YEAR ENDED SEPTEMBER 30	
	1975	1974
Source of Funds		
From operations:		
Net earnings	\$ 6,955,490	\$ 5,708,880
Items not requiring outlay of working capital		
Depreciation	4,757,590	3,706,216
Deferred federal income taxes	109,950	586,225
Pension and severance indemnity	1,022,099	—0—
Total from Operations	12,845,129	10,001,321
Disposals of property, plant and equipment	314,609	370,534
Increase in long-term debt	—0—	48,125,000
Issuance of Preferred and Common Shares for the acquisition of LaSalle Machine Tool, Inc.	—0—	8,450,000
	13,159,738	66,946,855
Application of Funds		
Dividends paid	2,823,460	3,985,976
Additions to property, plant and equipment	8,235,977	5,968,552
Reduction of long-term debt	5,922,413	12,836,832
Other	(222,193)	140,195
Non-current net assets of LaSalle Machine Tool, Inc.:		
Property, plant and equipment	—0—	10,264,394
Other assets	—0—	146,100
Excess of cost over net assets	(165,000)	825,000
Long-term debt	—0—	(6,107,895)
Pension and severance indemnity	—0—	(1,707,029)
	16,594,657	26,352,125
Increase (Decrease) in Working Capital	\$(3,434,919)	\$40,594,730
Changes in the Components of Working Capital		
Current assets — increase (decrease):		
Cash	\$ 1,033,626	\$ 1,422,321
Trade notes and accounts receivable	(4,622,235)	29,608,384
Inventories	(1,962,294)	29,357,788
Other current assets	1,020,843	980,185
Current liabilities — (increase) decrease:		
Notes payable to banks	(675,509)	(4,467,143)
Current portion of long-term debt	(9,663,392)	2,336,076
Accounts payable and accrued expenses	8,311,148	(12,449,607)
Salaries, wages, other compensation and payroll taxes	(869,602)	(2,460,851)
Advance payments from customers	4,972,843	(5,506,974)
Income taxes	(980,347)	1,774,551
Increase (Decrease) in Working Capital	\$(3,434,919)	\$40,594,730

See notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Acme-Cleveland Corporation and Subsidiaries
September 30, 1975 and 1974

The 1974 financial statements have been reclassified in certain areas to conform to the 1975 presentation.

A NOTE A — ACCOUNTING POLICIES AND PRACTICES

Acme-Cleveland Corporation and its subsidiaries' accounting and reporting policies conform to generally accepted accounting principles and to industry practices on a consistent basis between years. Significant accounting policies and practices are described below:

CONSOLIDATION — The consolidated financial statements include the accounts of the Corporation and all of its subsidiaries. Upon consolidation, all significant inter-company items and transactions are eliminated. Cash, receivables, and payables that are stated in foreign currencies are translated at the current exchange rates. Other assets and liabilities which are stated in foreign currencies are translated using the appropriate exchange rates, generally historical rates. Revenue and expense accounts are translated at the average exchange rates which were in effect during the periods. However, revenues and expenses that relate to assets and liabilities translated at historical rates are translated at the historical rates used to translate the related assets or liabilities. Exchange adjustments resulted in a net gain of \$300,000 in 1975 and a net gain of \$130,000 in 1974 which were credited to income. Revenues, net earnings (loss), and net assets of the foreign subsidiaries approximated \$28,040,000, (\$900,000), \$12,410,000 at September 30, 1975 and \$17,510,000, \$650,000, \$10,180,000 at September 30, 1974.

TRADE RECEIVABLES — In accordance with industry practice, installment contracts receivable due beyond one year are classified as current assets.

LONG-TERM CONTRACTS — Long-term contracts are accounted for on the percentage of completion method for financial reporting purposes with costs and estimated earnings included in sales when progress is sufficient to estimate final results with reasonable accuracy. When the current contract estimate indicates a loss, provision is made for the total anticipated loss.

INVENTORIES — Inventories are priced at cost (principally last-in, first-out method of determination) not in excess of replacement market. If the first-in, first-out (FIFO) method of inventory accounting had been used by the Corporation, inventories would have been \$24,101,000 and \$15,663,000 higher than reported at September 30, 1975 and September 30, 1974, respectively.

DEPRECIATION — Depreciation of property, plant and equipment is computed by the straight-line method. The annual depreciation rates are based on the following ranges of useful lives:

Buildings	20 to 50 years
Machinery and Equipment	3 to 12 years

Repair and maintenance costs are charged against earnings, while renewals and betterments are capitalized by additions to the related asset accounts. The Corporation and its subsidiaries generally record retirements by removing the cost and accumulated depreciation from the asset and accumulated depreciation accounts, reflecting any resulting gain or loss in earnings.

PENSION EXPENSE — In general, the Corporation's policy is to fund pension cost accrued. Annual pension expense provides for normal cost and amortization of prior service costs over periods of 15 to 40 years.

CANCELLATION CLAIMS — Revenues from cancellation claims are recognized when final settlement with the customer occurs.

EXCESS OF COST OVER NET ASSETS OF ACQUIRED COMPANIES — The excess of cost of acquired companies over their net assets at acquisition dates is being amortized by the straight-line method over periods of 40 years or less.

INCOME TAX — Income taxes were reduced by \$382,000 (\$193,000 in 1974) for the investment tax credit, which is accounted for by the flow-through method.

Income taxes are provided on worldwide income at the appropriate statutory rates applicable to such income. Since the Corporation plans to finance foreign expansion and operations by reinvestment of the earnings of foreign subsidiaries, no deferred federal income taxes have been provided on approximately \$2,099,000 of the unremitted earnings of such subsidiaries.

The Corporation's Domestic International Sales Corporation (DISC), which receives certain tax benefits under provisions of the Revenue Act of 1971, had unremitted earnings of approximately \$2,798,000 for which federal income taxes have not been provided.

The Corporation has available operating loss carryforwards in certain foreign countries of \$1,700,000 expiring from 1977 to 1981 and \$1,100,000 with an indefinite expiration date.

B NOTE B — ACQUISITION OF LaSALLE MACHINE TOOL, INC.

In a transaction accounted for as a purchase as of July 1, 1974, the Corporation acquired all of the outstanding common shares and preferred shares of LaSalle Machine Tool, Inc. in exchange for 587,785 Common Shares and 62,215 Series A Convertible Preferred Shares (see Note H). Accordingly, the accounts and results of operations of LaSalle are included in the accompanying consolidated financial statements from the date of acquisition. Pro forma results of the Corporation's operations for fiscal 1974, which include the unaudited results of LaSalle operations, were net sales of \$209,058,000, net earnings of \$5,176,000, and earnings per share of \$1.16.

The 587,785 Common Shares and the 62,215 Preferred Shares issued have been recorded at their estimated fair

Notes to Consolidated Financial Statements (Continued)

market value as of the date of the agreement in principle, which exceeded the adjusted fair market value of LaSalle's net assets by \$660,000. At September 30, 1975 the Corporation's Italian subsidiary has approximately \$1,900,000 of preacquisition loss carryforward available through 1978. To the extent that the carryforward is utilized, goodwill and then property, plant and equipment will be reduced.

NOTE C — LONG-TERM CONTRACTS AND PROGRAMS

Following are the component elements of accounts receivable from long-term contracts and programs:

	(In Thousands)	
	1975	1974
Billed	\$15,715	\$22,109
Unbilled costs, fees, and claims:		
Recoverable	6,241	5,173
Retainage	937	806
	<u>\$22,893</u>	<u>\$28,088</u>

Unbilled costs, fees, and claims represent revenue earned but not billable under terms of the related contracts. Substantially all of the amounts will be billed during 1976, as units are delivered and accepted by the customers.

Retainage receivables are billable upon completion of the related contracts and acceptance by the customers. These amounts are expected to be collected during 1976.

Inventories at September 30, 1975 include production costs of goods currently in process applicable to long-term contracts and programs aggregating approximately \$6,060,000 (\$12,054,000 at September 30, 1974) after deduction of progress payments of \$1,913,000 (\$4,656,000 at September 30, 1974).

NOTE D — INCOME TAXES

Deferred income taxes are provided to recognize the effect of timing differences between financial and tax reporting, principally relating to depreciation, pension costs and long-term contracts.

Income tax expense is summarized as follows:

	(In Thousands)	
	1975	1974
Federal		
Current	\$4,372	\$3,456
Deferred	644	266
	<u>5,016</u>	<u>3,722</u>
Foreign		
Current	96	349
Deferred	391	330
	<u>487</u>	<u>679</u>
State and local	<u>313</u>	<u>384</u>
	<u>\$5,816</u>	<u>\$4,785</u>

The difference between the actual income tax rate and that computed by applying the U.S. federal income tax rate of 48% is summarized as follows:

	1975	1974
Actual rate	45.5%	45.6%
Investment credit	3.0	1.8
Benefits attributable to DISC earnings	6.9	2.4
Effect of foreign income taxes	(4.9)	(.5)
State income taxes	(1.2)	(1.9)
Other items	(1.3)	.6
	<u>48.0%</u>	<u>48.0%</u>

NOTE E — LONG-TERM DEBT

	SEPTEMBER 30	
	1975	1974
Loans from banks under revolving credit agreement	\$52,925,000	\$48,125,000
Lease obligation to the State of Ohio requiring payments (including interest averaging 6%) of approximately \$158,000 annually through December 1, 1980	794,208	900,385
Various debt arrangements of foreign subsidiaries maturing at various dates to 1991 and having interest rates of 4% to 13½%	1,723,357	2,593,627
Other notes payable at various rates of 5% to 8%	226,020	308,594
	<u>55,668,585</u>	<u>51,927,606</u>
Less current portion	<u>10,515,354</u>	<u>851,962</u>
	<u>\$45,153,231</u>	<u>\$51,075,644</u>

As of September 25, 1975 the Corporation entered into a revised revolving credit agreement with a group of banks. Under the terms of this agreement, the Corporation may borrow up to \$55,000,000 until the proceeds from the Senior Notes described below are available. By April 1, 1976 the revolving credit will be decreased to \$22,500,000. The revolving credit will be further decreased on September 30, 1976 to \$18,000,000 and on September 30, 1977 to \$16,000,000.

The remaining revolving credit may be converted into a four-year term loan on September 29, 1978. The first revolving loans aggregating \$25,000,000 bear interest at the rate of 120% of an amount equal to the prime rate plus ½ of 1% (the prime rate at September 30, 1975 was 8%). All other revolving loans bear interest at the rate of 110% of an amount equal to the prime rate plus ¼ of 1%. Additionally, the revolving credit agreement provides for the payment of a stand-by commitment fee of ½ of 1% per annum on the average unused balance and a facility commitment fee of ¼ of 1% per annum on the total quarterly commitment. This agreement incorporates the working capital restrictions and other limitations on the conduct of the Corporation's business contained in the Senior Note loan agreement.

As of September 25, 1975 the Corporation entered into separate loan agreements with four insurance companies providing for the issuance and sale by the Corporation on or before April 1, 1976 of \$25,000,000 in aggregate principal amount of the Corporation's 11% Senior Notes maturing in annual installments of \$2,000,000 beginning on April 1, 1979. The loan proceeds must be used to reduce outstanding bank borrowings under the revolving credit agreement. The loan agreement provides, among other things, for payment of a stand-by commitment fee of $\frac{1}{2}$ of 1% per annum on the total commitment until the loans are made. The terms of the agreement require minimum amounts, as defined, of working capital, current assets in excess of current liabilities, and tangible net worth. The agreement also contains certain limitations on the payment of cash dividends and on certain other payments as defined. The amount of unrestricted retained earnings available for dividend purposes was approximately \$4,452,000 at September 30, 1975.

Current installments of long-term debt payable in fiscal year 1976 aggregate \$10,515,000. Subsequent annual installments are as follows:

1977	\$2,765,000	1979	\$6,310,000
1978	\$ 335,000	1980	\$6,190,000

F NOTE F — PENSION, PROFIT SHARING, AND SEVERANCE INDEMNITIES

The Corporation and its subsidiaries have several pension plans, covering substantially all employees. The total pension expense was approximately \$3,596,000 for 1975 and \$3,090,000 for 1974. The actuarially computed value of vested benefits for certain plans as of their respective anniversary dates exceeds the market value of their pension funds by approximately \$21,001,000 at September 30, 1975.

The Corporation and its subsidiaries have several employee profit sharing arrangements in effect. Amounts contributed under such arrangements are based upon the annual earnings of the Corporation and subsidiaries or the respective operating units. Such contributions amounted to \$2,475,000 in 1975 and \$1,683,000 in 1974.

The Employee Retirement Income Security Act of 1974 requires the Corporation and its subsidiaries to amend certain of its plans during 1976 to conform with provisions of the Act. The Corporation believes that the effect on annual costs for 1976 and subsequent years resulting from these amendments will not be significant.

An indemnity is payable to employees of certain foreign subsidiaries upon termination of their employment and is based on employment category, length of service, and rates of pay at termination date. Accrual for the liability (\$1,510,000 in 1975) has been made on the basis of accumulated service and the level of annual remuneration.

G NOTE G — LEASES

Total rental expense for all leases amounted to:

	1975	1974
Financing leases	\$ 324,392	\$ 261,393
Other leases	1,926,828	1,551,392
	<u>\$2,251,220</u>	<u>\$1,812,785</u>

Future minimum rental commitments as of September 30, 1975 for all noncancellable leases are as follows:

	Total	Financing Leases		Other Leases	
		Buildings	Equipment	Buildings	Equipment
1976	\$1,239,259	\$ 40,881	\$333,463	\$172,274	\$ 692,641
1977	906,703	32,647	172,683	160,936	540,437
1978	548,477	24,411	84,023	148,196	291,847
1979	434,136	24,411	20,490	132,397	256,838
1980	178,522	24,411	—0—	53,910	100,201
1981-1985	132,280	122,055	—0—	7,121	3,104
1986-1990	106,914	106,914	—0—	—0—	—0—
1991	4,841	4,841	—0—	—0—	—0—
	<u>\$3,551,132</u>	<u>\$380,571</u>	<u>\$610,659</u>	<u>\$674,834</u>	<u>\$1,885,068</u>

The impact on net earnings would not be significant assuming all noncapitalized financing leases were capitalized, related assets were amortized on a straight-line basis, and interest cost accrued.

H NOTE H — CAPITAL STOCK

STOCK OPTIONS—A stock option plan authorizes the issuance of Common Shares to key employees at not less than the market price on dates of grant. The options become exercisable over a period of five years, beginning one year after date of grant. At September 30, 1975, options for 12,450 shares (45,000 shares at September 30, 1974) were exercisable and 116,800 shares (75,950 shares at September 30, 1974) were available for future options.

A summary of the changes in outstanding stock options follows:

	Shares	Option Price	
		Per Share	Aggregate
Outstanding at			
October 1, 1973	60,350	\$14.75 to \$23.38	\$1,267,506
Granted	16,600	14.50	240,700
Cancelled or expired	2,900	23.38	67,788
Outstanding at			
September 30, 1974	74,050	14.50 to 23.38	1,440,418
Cancelled or expired	40,850	23.38	954,868
Outstanding at			
September 30, 1975	33,200	\$14.50 to \$14.75	\$ 485,550

PREFERRED SHARES—The Series A Preferred Shares have voting rights on a share-for-share basis with the Common Shares, asset preference upon liquidation or dissolution of \$12 per share, the right to convert the shares on a share-for-share basis into Common Shares after June 30, 1975, and the right of the Corporation, after June 30, 1979, to redeem the shares at a price of \$13 per share.

RESERVED SHARES—212,215 Common Shares are reserved for issuance under the stock option plan and the conversion rights of the Preferred Shares.

NOTE I — CONTINGENCIES

Various claims, generally incidental to the normal conduct of business, are pending or threatened against the Corporation from time to time. Ultimate liability, if any, is presently indeterminable but, in the opinion of management, should have no material adverse effect on the financial condition of the Corporation.

Under the provisions of certain sales contracts with a major foreign customer, the Corporation is required to guarantee compliance with contract provisions by obtaining letters of credit. Outstanding letters of credit under such contracts approximated \$3,700,000 at September 30, 1975. The Corporation expects to continue to comply with all

contract provisions, and no material losses are anticipated under these guarantees.

NOTE J — EARNINGS PER SHARE

Net earnings per Common Share are based on the weighted average number of Common Shares outstanding after recognition of dividends paid on convertible Preferred Shares. Fully diluted earnings per share would not be materially different from net earnings per share as reported if all outstanding Preferred Shares were assumed to be converted to Common Shares. The inclusion of stock options (common stock equivalents) would be anti-dilutive.

ACCOUNTANTS' REPORT

Board of Directors
Acme-Cleveland Corporation
Cleveland, Ohio

We have examined the consolidated balance sheet of Acme-Cleveland Corporation and subsidiaries as of September 30, 1975 and 1974, and the related consolidated statements of earnings, shareholders' equity, and changes in financial position for the years then ended. Our examination was made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the financial statements referred to above present fairly the consolidated financial position of Acme-Cleveland Corporation and subsidiaries at September 30, 1975 and 1974, and the consolidated results of their operations and changes in their financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

Ernst & Ernst

Ernst & Ernst

Cleveland, Ohio
November 25, 1975

FIVE-YEAR SUMMARY OF OPERATIONS AND STATISTICAL REVIEW

Acme-Cleveland Corporation and Subsidiaries

	1975 (1)	1974 (1)	1973	1972	1971
Summary of Operations					
Net Sales	\$231,489,665	\$169,442,363	\$127,850,966	\$96,001,120	\$81,358,419
Cost of Products Sold	170,670,207	126,022,710	90,417,166	68,541,413	61,442,591
Interest Expense	6,919,170	3,486,962	991,969	782,509	1,069,608
Earnings (Loss) before Taxes	12,771,490	10,493,880	12,563,828	6,056,604	(1,007,559)
Income Taxes	5,816,000	4,785,000	5,876,000	2,879,000	(430,000)
Net Earnings (Loss)	6,955,490	5,708,880	6,687,828	3,177,604	(577,559)*
Net Earnings to Net Sales	3.0%	3.4%	5.2%	3.3%	—
Earnings (Loss) per Common Share	1.56	1.43	1.74	.83	(.15)*
Dividends Paid**	2,823,460	3,985,976	3,148,280	3,075,786	3,075,626
Cash Dividends Paid per Common Share625	1.00	.82	.80	.80
Other Financial Information					
Current Assets	129,200,969	133,731,029	72,362,351	58,323,627	59,461,586
Current Liabilities	46,884,880	47,980,021	27,206,073	15,768,995	11,164,606
Working Capital	82,316,089	85,751,008	45,156,278	42,554,632	48,296,980
Shareholders' Equity (Net Worth)	81,160,550	77,028,520	66,855,616	63,600,922	63,499,104
Shareholders' Equity per Common Share	18.22	17.28	17.42	16.54	16.52
Property, Plant and Equipment — Net	47,054,224	43,890,446	31,169,157	29,863,420	29,295,784
Capital Expenditures	8,235,977	5,968,552	5,023,718	4,089,657	2,666,573
Depreciation	4,757,590	3,706,216	3,234,652	3,046,095	3,044,998
General Information					
Average Number of Common Shares Outstanding	4,410,017	3,969,178	3,836,847	3,844,732	3,844,547
Number of Shareholders — Year End	7,530	7,742	7,604	7,632	7,946
Number of Employees — Year End	6,488	7,200	5,554	4,912	4,759

(1) Includes LaSalle Machine Tool, Inc., purchased as of July 1, 1974.

*A change in actuarial assumption used in computing pension cost reduced net loss \$224,000 or \$.06 per share.

**Includes dividend requirement for Preferred Shares issued June 28, 1974 of \$67,192 in 1975 and \$16,798 in 1974.

Certain accounts have been reclassified to conform to the 1975 presentations.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF THE SUMMARY OF OPERATIONS

FISCAL 1975 COMPARED TO FISCAL 1974

CONSOLIDATED net sales increased \$62 million primarily because of the inclusion of LaSalle operations for all of fiscal 1975. Shipments of capital equipment increased as order backlogs were reduced by nearly half. Relatively high cancellations for standard machine tools were experienced for some months in the middle of the 1975 fiscal year, but the rate moderated toward year-end. Shipments of expendable tools were lower because of the economic recession.

Total cost of products sold increased due to higher shipment volume in the capital equipment line and continued inflation. Maintenance and repair expense, payroll taxes, real and personal property taxes and rental expense were all greater, mainly reflecting the inclusion of the LaSalle group for the entire year, as well as higher payrolls, larger inventories and greater utilization of facilities of other operations.

Depreciation expense increased reflecting additions to property, plant and equipment in fiscal 1975.

Interest expense rose \$3.4 million due to higher interest rates and to substantial increases in the level of borrowings caused largely by the absorption of the LaSalle debt for the full year and the unusual increase in inventories in the first half of fiscal 1975.

Higher earnings before taxes resulted from the inclusion of LaSalle and from higher shipments of capital equipment from other operations. Pre-tax earnings from expendable tools were down because of lower volume.

The income tax rate remained nearly constant at 45.5% of pre-tax earnings, compared to 45.6% for 1974. Increased benefits attributable to DISC earnings and greater investment credits were offset by the absence of income tax credits for losses of some European subsidiaries.

FISCAL 1974 COMPARED TO FISCAL 1973

THE increase in consolidated net sales of \$42 million resulted partly from the inclusion of sales of \$19 million for the LaSalle group for the fourth quarter of 1974. Total cost of products sold increased due to greater shipment volume and higher manufacturing expenses. Increased utilization of facilities caused maintenance and repair expense to be higher. Payroll taxes were greater as a result of larger payrolls and a higher effective tax rate. Real and personal property taxes advanced as a result of larger investments in inventory. Rental expense increased as a result of expanded data transmission systems and increased truck rentals for the Corporation's extended transportation system. Depreciation expense was greater because of increased capital expenditures and the inclusion of LaSalle for the last quarter of 1974.

Interest expense increased \$2.5 million as a result of increased borrowings and higher average interest rates. Absorption of \$24 million of short-term bank debt from LaSalle on July 1, 1974 contributed to the increase.

Earnings before income taxes declined in spite of the increase in sales. Pre-tax income for the capital equipment line decreased as the result of shortages of key materials and components and the Corporation's inability to pass cost increases through on firm price orders obtained during the period of price controls. Pre-tax income for the expendable tools line also decreased because of the effect of price controls.

The income tax rate declined from 46.8% to 45.6% of pre-tax earnings, primarily because of increased benefits attributable to DISC earnings.

A BRIEF DESCRIPTION OF THE BUSINESS

Acme-Cleveland Corporation

ACME-CLEVELAND Corporation is engaged in the manufacture, sale and servicing of tools used in the production of a wide variety of products.

The Corporation's business is composed of two lines, capital equipment and expendable tools.

The following major product groups are included in the capital equipment line: transfer machines; automatic multiple spindle bar and chucking machines; equipment, tooling and supplies for the foundry industry; electrical and electronic controls, and complete manufacturing systems. Acme-Cleveland's major market for capital goods products is the automotive industry; however, a wide variety of other industries are served, such as capital equipment, including farm and construction equipment, screw machine products and bearings.

The expendable tools line is made up principally of twist drills, reamers, end mills and threading tools. Expendable tools are sold primarily to the capital equipment, automotive and aerospace industries. A substantial number of other industries are also customers for these products.

Acme-Cleveland markets a number of discrete products. However, it endeavors, wherever possible, to take an integrated approach to customers' requirements for equipment and tooling. A major objective of the Corporation is to be able to supply from its various divisions a complete system to produce a given product or component.

The table below shows revenues and pre-tax earnings for each of Acme-Cleveland's two lines of business for the five fiscal years 1971 through 1975:

REVENUE AND EARNINGS (LOSS) BEFORE INCOME TAXES BY LINES OF BUSINESS

(In Thousands of Dollars)

	1975 (1)		1974 (1)		1973		1972		1971	
	Revenue	Pre-tax Earnings	Revenue	Pre-tax Earnings	Revenue	Pre-tax Earnings	Revenue	Pre-tax Earnings	Revenue	Pre-tax Earnings
Capital Equipment	\$156,619	\$ 8,730	\$ 90,662	\$ 1,663	\$ 61,496	\$ 3,279	\$47,065	\$1,775	\$38,850	\$(2,477)
Expendable Tools	77,704	4,041	81,161	8,831	69,020	9,285	51,055	4,282	44,400	1,469
TOTAL	<u>\$234,323</u>	<u>\$12,771</u>	<u>\$171,823</u>	<u>\$10,494</u>	<u>\$130,516</u>	<u>\$12,564</u>	<u>\$98,120</u>	<u>\$6,057</u>	<u>\$83,250</u>	<u>\$(1,008)</u>

(1) Includes LaSalle Machine Tool, Inc., purchased as of July 1, 1974.

QUARTERLY DATA – SALES, NET EARNINGS, COMMON SHARES

Fiscal years ending September 30

Dollars in thousands except per share and stock price data		First Quarter	Second Quarter	Third Quarter	Fourth Quarter				
		October-December	January-March	April-June	July-September				
SALES	1975	\$60,130	\$58,304	\$58,123	\$54,933				
	1974	34,656	37,487	40,974	56,325				
	Pro Forma	1974*	49,662	48,620	54,451	56,325			
NET EARNINGS	1975**	\$ 1,405	\$ 3,070	\$ 1,559	\$ 921				
	1974	1,284	1,154	1,837	1,434				
	Pro Forma	1974*	1,342	1,053	1,347	1,434			
EARNINGS PER SHARE . .	1975**	\$.31	\$.70	\$.35	\$.20				
	1974	.34	.30	.48	.31				
	Pro Forma	1974*	.30	.24	.31	.31			
SHARE PRICES (NYSE) . . .		High	Low	High	Low	High	Low	High	Low
	1975	9⅞	7	10⅞	7	10	8⅞	9⅞	7¼
	1974	16	12⅜	14⅝	12½	13⅞	10⅝	11¼	8¾
DIVIDENDS PER SHARE . .	1975	\$.25	\$.125	\$.125	\$.125				
	1974	.25	.25	.25	.25				

*Includes the unaudited results of LaSalle Machine Tool, Inc., acquired July 1, 1974.

**During the three months ended September 30, 1975, certain physical inventory adjustments were recorded which were material to the results of the fourth quarter. The aggregate effect on net income was a reduction of approximately \$403,000 (\$.09 per share).

ACME-CLEVELAND CORPORATION

BOARD OF DIRECTORS

Arthur S. Armstrong

*Chairman of the Board
Acme-Cleveland Corporation*

Ralph M. Besse

*Partner — Squire, Sanders & Dempsey, Law Firm
Cleveland, Ohio*

Carleton Blunt

*Retired
Delray Beach, Florida*

Raymond E. Channock

*Retired, formerly President
Acme-Cleveland Corporation*

Charles W. Clark

*Group Vice President
Acme-Cleveland Corporation, and President of the National Acme Division*

W. Paul Cooper

*President and Chief Executive Officer
Acme-Cleveland Corporation*

Robert R. Cosner

*Consultant to LaSalle Machine Tool, Inc.
Subsidiary of Acme-Cleveland Corporation, Warren, Michigan*

Stephen M. DuBrul, Jr.

*Partner — Lazard Freres & Co., Investment Bankers
New York, New York*

Jacob B. Perkins

*President
The Hill Acme Company, Machine Tool Manufacturer, Cleveland, Ohio*

Karl H. Rudolph

*President and Chief Executive Officer
The Cleveland Electric Illuminating Company, Public Utility
Cleveland, Ohio*

Robert I. Sattler

*Group Vice President
Acme-Cleveland Corporation
and President of LaSalle Machine Tool, Inc.
Subsidiary of Acme-Cleveland Corporation, Warren, Michigan*

Earl P. Schneider

*Partner — Thompson, Hine and Flory, Law Firm
Cleveland, Ohio*

OFFICERS

Arthur S. Armstrong

Chairman of the Board

W. Paul Cooper

President and Chief Executive Officer

Charles W. Clark

Group Vice President and President of the National Acme Division

Robert A. Harvey

Group Vice President and President of The Cleveland Twist Drill Company

Robert I. Sattler

Group Vice President and President of LaSalle Machine Tool, Inc.

Herbert von Wolff

Group Vice President and President of the Shalco Systems Division

Lawrence R. Cowin, Jr.

Vice President — Finance

Melvin A. Hansen

Vice President — Personnel

Henry R. Hatch III

Vice President and Secretary

Harry H. Leckler

Vice President — Public Relations

Thomas M. Skove

Treasurer

Michael T. Cantwell

Controller

James M. Tompkins

Assistant Controller and Assistant Secretary

Leonard W. Schiemann

Assistant Treasurer

ACME-CLEVELAND CORPORATION OPERATIONS

CLEVELAND TWIST DRILL COMPANY

Cutting and Threading Tools, *Cleveland, Ohio;*
Mansfield, Massachusetts; Providence, Rhode Island;
Kent, Washington

Cleveland Twist Drill Canada Ltd., *Rexdale (Toronto),*
Ontario, Canada

Cleveland Twist Drill Limited, *Peterhead and Glasgow,*
Scotland

Cleveland Twist Drill Nederland, B.V., *Maastricht,*
The Netherlands

Cleveland Twist Drill GmbH, *Loffingen, West Germany*
Herramientas Cleveland S.A., Pachuca, Mexico

NATIONAL ACME DIVISION

Machine Tools and Special Machines, *Cleveland, Ohio*

Machine Tool Licensees:

Alfred Herbert Limited, *Coventry, England*

Mitsubishi Heavy Industries, Ltd., *Tokyo, Japan*

LaSALLE MACHINE TOOL, INC.

Manufacturing Systems, *Warren, Fenton and Holly, Michigan*

LaSalle Machine Tool of Canada Ltd., *Windsor, Ontario*

LaSalle Machine Tool Italia, S.p.A., *Turin, Italy*

SHALCO SYSTEMS DIVISION

Foundry Systems and Equipment, *Cleveland, Ohio;*
Kewanee, Illinois; Port Huron, Michigan

Automotive Pattern, *Detroit, Michigan*

Shalco Systems-Acme-Cleveland GmbH, *Homburg/Ohm,*
West Germany

Foundry Equipment Licensee:

Roterid Companhia Mecanica, *Sao Paulo, Brazil*

NAMCO CONTROLS DIVISION

Electrical Controls, *Cleveland, Mentor and Jefferson, Ohio*

Electrical Controls Licensees:

Herbert Controls & Instruments, Ltd., *Letchworth,*
Hertfordshire, England

Fritz Dienes GmbH (switches only), *Muhlheim,*
West Germany

ACME-CLEVELAND DEVELOPMENT COMPANY, Highland Heights, Ohio

OTHER FACILITIES

Cynthiana Manufacturing Plant, *Cynthiana, Kentucky*

GENERAL COUNSEL

Thompson, Hine and Flory, *Cleveland, Ohio*

AUDITORS

Ernst & Ernst, *Cleveland, Ohio*

TRANSFER AGENT AND REGISTRAR

The Cleveland Trust Company, *Cleveland, Ohio*

LISTING

Acme-Cleveland Corporation common shares are listed on the New York Stock Exchange under the ticker symbol AMT.

ANNUAL MEETING OF SHAREHOLDERS

The annual meeting will be held on January 22, 1976. Shareholders of record on December 8, 1975 will be entitled to vote. The notice, proxy statement and proxy for the meeting will be mailed to shareholders of record on or about December 26, 1975.

